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BEFORE THE ARIZONA CORPORATE

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**COMMISSIONERS**

BOB STUMP, CHAIRMAN  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY FOR  
THE ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE OF  
ITS OPERATIONS THROUGHOUT THE STATE  
OF ARIZONA.

) DOCKET NO. E-01933A-12-0291

**NOTICE OF FILING**

Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby files the  
Response Testimony of David G. Hutchens in Support of the Settlement Agreement dated  
February 4, 2013.

RESPECTFULLY SUBMITTED this 1<sup>st</sup> day of March 2013.

TUCSON ELECTRIC POWER COMPANY

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**DOCKETED**

MAR 1 2013



1 Original and 13 copies of the foregoing  
2 filed this 1<sup>st</sup> day of March 2013 with:

3 Docket Control  
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IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. E-01933A-12-0291  
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RATE OF RETURN ON THE FAIR VALUE OF )  
ITS OPERATIONS THROUGHOUT THE STATE )  
OF ARIZONA. )

Response Testimony of

David G. Hutchens

In Support of the Settlement Agreement

on Behalf of

Tucson Electric Power Company

March 1, 2013

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1 **I. INTRODUCTION.**

2  
3 **Q. Please state your name and business address.**

4 A. My name is David G. Hutchens. My business address is 88 East Broadway Blvd.,  
5 Tucson, Arizona 85701.

6  
7 **Q. Did you file Direct Testimony in Support of the Settlement Agreement on February**  
8 **15, 2013 on behalf of Tucson Electric Power Company ("TEP" or "Company")?**

9 A. Yes.

10  
11 **Q. What is the purpose of your Response Testimony?**

12 A. Based on the Company's reading of all of the direct testimony of the parties relating to  
13 the Settlement Agreement that was filed on February 15, 2013, only Southwest Energy  
14 Efficiency Project ("SWEEP") filed testimony opposing the Settlement Agreement and  
15 SWEEP only opposed two aspects of the Settlement Agreement; the Lost Fixed Cost  
16 Recovery Mechanism ("LFCR") and the proposed increase in the monthly fixed charge.<sup>1</sup>  
17 The purpose of this testimony is to respond to the two concerns raised by SWEEP.

18  
19 **II. RESPONSE TO TESTIMONY IN PARTIAL OPPOSITION BY SWEEP.**

20  
21 **Q. Please summarize your response to SWEEP's concerns about the LFCR.**

22 A. SWEEP argues (Schlegel Settlement Testimony at page 4, line 29) that the LFCR  
23 mechanism "inadequately reduces utility disincentives to energy efficiency" and urges that  
24 the Commission adopt a full decoupling mechanism instead of the LFCR. TEP believes  
25 that the LFCR is narrowly tailored to remove such disincentives and that SWEEP  
26

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27 <sup>1</sup> Although it did not file testimony relating to the Settlement Agreement, the Sierra Club did file a notice indicating that it supported SWEEP's position.

1 exaggerates its perceived deficiencies of the LFCR mechanism adopted in the Settlement  
2 Agreement.

3  
4 TEP requires an effective rate mechanism to allow it to pursue the level of demand-side  
5 management ("DSM") and distributed generation ("DG") authorized and required by the  
6 Commission. In its Direct Testimony, TEP proposed an LFCR mechanism similar to the  
7 LFCR mechanisms recently approved by the Commission for Arizona Public Service  
8 Company ("APS") (Decision No. 73183 (May 24, 2012)) and UNS Gas, Inc. (Decision  
9 No. 73142 (May 1, 2012)). The Settlement Agreement adopts the LFCR, including a fixed  
10 charge "opt-out" option, while not limiting the Commission's authority to determine DSM  
11 or DG policy in the future. The LFCR reflected the desire of the Signatories (including  
12 Staff, the Residential Utility Consumer Office ("RUCO"), and the other diverse customer  
13 interests) to have a more limited and targeted mechanism than full revenue per customer  
14 decoupling.

15  
16 **Q. Please respond to SWEEP's assertion (Schlegel Settlement Testimony at page**  
17 **14, line11) that full decoupling is superior to the LFCR.**

18 **A.** I think it is a matter of perspective. SWEEP believes that the full decoupling will better  
19 remove the disincentives facing the Company. I agree that full decoupling would remove  
20 the current financial disincentive to the Company presented by energy efficiency ("EE")  
21 and DG. However, the LFCR is also sufficient for that purpose at this time and represents  
22 a more gradual and balanced approach that helped garner the broad support necessary to  
23 reach such a comprehensive and inclusive Settlement Agreement. The LFCR also has a  
24 detailed Plan of Administration that should minimize or eliminate SWEEP's concerns  
25 about its administration.

1 I disagree with SWEEP's assertion (Schlegel Settlement Testimony at page 14, line 20)  
2 that the LFCR mechanism "represents an automatic rate increase." Rather, the LFCR  
3 represents a method to offset only a portion of the revenues the Company will  
4 **automatically lose** due to mandated EE and DG requirements. Even with the LFCR,  
5 customers can lower their bills by implementing EE or DG measures. The LFCR is  
6 carefully structured to allow TEP to recover only lost revenues that it can prove up under  
7 the EE Plan of Administration and actual metered DG production – revenues that are part  
8 of the revenue requirement adopted in this rate case. By design, TEP will not recover more  
9 than the approved revenue requirement through the LFCR. I do not believe that the  
10 Signatories would have agreed to the LFCR if that was the case.  
11

12 **Q. You stated that the LFCR set forth in the Settlement Agreement is similar to the**  
13 **LFCR mechanism recently adopted by the Commission for APS. Does SWEEP**  
14 **provide any justification as to why the Commission should treat TEP differently than**  
15 **APS and require a full decoupling mechanism?**

16 A. No.  
17

18 **Q. Do you believe that the Settlement Agreement limits the Commission's**  
19 **ability to consider full decoupling in this proceeding, as asserted by**  
20 **SWEEP (Schlegel Settlement Testimony at page 13, lines 29-39)?**

21 A. No. Under terms of the Settlement Agreement, the Commission is not bound to make any  
22 particular resolution of the unrecovered fixed cost problem and could adopt full  
23 decoupling. See Settlement Agreement at §§21.2 and 21.4. However, that could  
24 result in several Signatories withdrawing their support for the Settlement Agreement.  
25 See Settlement Agreement at §21.5. A principal benefit of any settlement is the  
26 broad consensus on a number of issues, of which the LFCR is just one.  
27



1 **Q. Does the residential fixed charge "opt-out" rate discourage energy efficiency as**  
2 **alleged by SWEEP (Schlegel Settlement Testimony at page 14, lines 35-43)?**

3 A. I do not believe so. This option is only a modest increase in the monthly customer  
4 charge and is intended to replicate, on average, the effect of the LFCR. This small  
5 increase in the basic monthly service charge does not mean that the customer will not  
6 have an incentive to save money by reducing their usage. The vast majority of a  
7 customers' bill will continue to be related to the volumetric charges. If customers  
8 reduce their electricity usage, they will still pay less than if they did not reduce usage  
9 despite this modest increase in the monthly charge.

10

11 **Q. Could there have been a broadly supported Settlement Agreement that**  
12 **adopted full decoupling?**

13 A. I do not believe so. Indeed, the narrower scope of the LFCR and the ability to craft a  
14 reasonable residential fixed charge option (the "opt-out" rate) allowed the Signatories to  
15 reach the consensus represented by the Settlement Agreement. Regardless of whether or  
16 not full decoupling is regarded as the "perfect" solution to the problem of unrecovered  
17 fixed costs attributable to EE, DSM and DG, the LFCR mechanism is clearly a good  
18 resolution to that problem. TEP was not willing to forego a comprehensive settlement  
19 based on that one issue.

20

21 **Q. Please summarize your response to SWEEP's concerns about the monthly**  
22 **residential customer charge.**

23 A. SWEEP argues (Schlegel Settlement Testimony at page 15, line 17) that by increasing the  
24 standard monthly residential customer charge to \$10.00 "customers will not be able to  
25 take action to reduce or mitigate this increased cost." This is simply not true. The  
26 components that make up a customer's total bill are designed to recover both the fixed  
27 and variable costs of TEP's system. The monthly customer charges are designed to

1 recover only a portion of the fixed costs of TEP's system, while the variable components  
2 are designed to recover both fixed and variable costs. By reducing consumption, through  
3 implementing EE or DSM measures, conservation, or installing DG, customers still have  
4 the opportunity to lower their overall bill and mitigate the impact of any increase in the  
5 monthly charge. TEP believes the rate design proposed in the Settlement Agreement is  
6 fair and balanced to both the Company and its customers and is in the public interest.  
7

8 **Q. SWEEP further argues that the proposed increase in the residential**  
9 **customer charge "will be greater than 40%" (Schlegel Settlement Testimony**  
10 **at page 15, lines 14 and 15). How do you respond to this?**

11 A. While this may be mathematically correct, the statement is misleading and should be put  
12 into proper perspective, both recent and historical. Under SWEEP's argument, if TEP's  
13 customer charge was \$1.00 and the proposal would be to raise it to \$2.00, this would  
14 represent a 100% increase. This is why it is misleading to use percentages under these  
15 circumstances.  
16

17 From a historical perspective, TEP's residential customers did not see a significant  
18 increase in the monthly charge over the last 19 years as the charge has ranged from  
19 \$4.90 to the current rate of \$7.00 that was approved in 2008.<sup>2</sup> As demonstrated in  
20 TEP's rate case application, since the end of the 2006 test year, TEP invested more than  
21 \$1 billion in capital expenditures while at the same time the Company's expenses  
22 increased. Regardless of whether customers decrease their usage through EE or DSM  
23 measures, TEP is still required to build, maintain and operate the infrastructure  
24 necessary to provide safe and reliable service and must be able to recover fixed costs  
25 associated with its legal obligation to serve. The increase in the customer charge helps  
26

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27 <sup>2</sup> TEP's Commission approved customer charges were as follows: 1994-\$5.00, 1996-\$5.06, 1998-\$5.00,  
2000-\$4.90, 2008-\$7.00.

1 the Company to recover its fixed costs and provides a more realistic opportunity for the  
2 Company to earn its Commission-authorized rate of return.

3  
4 From a more recent perspective, over the last three years, the Commission has approved  
5 increases in the basic service charge for UNS Electric, UNS Gas, and Southwest Gas. It  
6 should be further noted that the monthly residential customer charge for UNS Gas and  
7 Southwest Gas are \$10.00 and \$10.70, respectively, while our neighbor Trico Electric  
8 Cooperative has a \$15.00 per month residential customer charge.

9  
10 **Q. SWEEP also states that the proposed increase in the monthly customer**  
11 **charge is “not consistent with the important principle of gradualism”**  
12 **(Schlegel Settlement Testimony at page 15, line 16). How do you respond to this?**

13 **A.** As discussed in the testimony of Mr. Jones, (Jones Direct Testimony at page 33, line 16),  
14 TEP’s residential customer charge would have to be \$55 per month to recover all of the  
15 Company’s fixed costs attributable to that customer class. One could argue rates designed  
16 to recover all fixed costs through the monthly charge and all variable costs through  
17 volumetric charges (straight fixed variable), is accurate from a cost causation standpoint  
18 and would eliminate the need for any type of decoupling mechanism.

19  
20 As stated above, over a 19 year period, TEP’s basic residential customer charge ranged  
21 from \$4.90 to \$7.00. By increasing the basic customer charge to \$10, which will recover  
22 less than 20 percent of the Company’s fixed costs of providing service to the residential  
23 customer class, is indeed a gradual approach.

24  
25 The proposal in the Settlement Agreement, is supported by not only Staff, but the  
26 residential and low income advocates (RUCO and Cynthia Zwick, respectively). If this 19  
27

1 year history is not representative of the application of the principle of gradualism, I do not  
2 know what is.

3  
4 **Q. Does TEP evaluate EE and DSM programs as an integral part of its Integrated**  
5 **Resource Planning process?**

6 A. Yes. TEP has and will continue to evaluate EE and DSM measures as part of the  
7 Company's resource planning process. TEP's 2012 Integrated Resource Plan, includes a  
8 range of cost-effective and industry-proven programs to off-set future retail load growth.

9  
10 **Q. Does this conclude your testimony?**

11 A. Yes.  
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